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Department of the Treasury
Internal Revenue Service

Instructions for Form 4626

Alternative Minimum Tax—Corporations

(Section references are to the Internal Revenue Code unless otherwise noted.)

General Instructions

Paperwork Reduction Act Notice.—We ask for this information to carry out the Internal Revenue laws of the United States. We need it to ensure that taxpayers are complying with these laws and to allow us to figure and collect the right amount of tax. You are required to give us this information.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated average time is:

Recordkeeping . . . . . 11 hrs.

Learning about the law or the form . . . . . 10 hrs., 25 min.

Preparing and sending the form to IRS . . . . . 11 hrs., 4 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form more simple, we would be happy to hear from you. You can write to either IRS or the Office of Management and Budget at the addresses listed in the instructions for the tax return with which this form is filed.

Who Must File.—You must file this form if your taxable income or (loss) before the net operating loss **(NOL)** deduction when combined with your adjustments and tax preference items (including the book income adjustment) totals more than the lesser of: (a) $40,000, or (b) your allowable exemption amount. For more information, see **Publication 542,** Tax Information on Corporations.

Short Period Return.—If this is a short period return, use the formula in section 443(d) to determine your alternative minimum taxable income **(AMTI)** and your alternative minimum tax **(AMT).**

If you are preparing Form 4626 for a regulated investment company, real estate investment trust, or a common trust fund, see section 59(d) regarding the apportionment of "differently treated items."

Credit for Prior Year Minimum Tax.—See Form 8801 if you paid AMT for 1988 or if you had a minimum tax credit carryforward on line 26 of your 1988 Form 8801.

Line-by-Line Instructions

Line 1.—Enter your taxable income or (loss) before the NOL deduction. For example, if you file Form 1120, subtract line 29b from line 28.

Important: *If you are subject to the environmental tax, you will generally need to figure that tax on line 17 (see instructions for line 17) of this form* ***before*** *completing line 1, since any environmental tax you paid or incurred during the tax year is allowed as a deduction in computing the taxable income you will enter on line 1.*

Line 2a—Depreciation of tangible property placed in service after 1986 (or after 7/31/86 if you made the transitional election under section 203(a)(1)(B) of the Tax Reform Act of 1986).

Caution: *If you have a depreciation adjustment attributable to a passive activity or a tax shelter farm activity, do not include that adjustment on line 2a. Instead, include the adjustment on line 2j or 2k.*

The depreciation expense allowable for regular tax purposes under section 167 with respect to any tangible property placed in service after 1986 must be recomputed for AMT purposes under the alternative depreciation system **(ADS)** described in section 168(g) as follows:

(1) For any tangible real property described in section 1250(c) (generally nonresidential real and residential rental), use the straight line method over 40 years using the same mid-month convention you used for regular tax purposes;

(2) For any tangible property (other than the tangible real property described in (1) above) with respect to which depreciation for regular tax purposes is determined using the straight line method, recompute your depreciation expense using the straight line method over the property's "class life" using the same convention you used for regular tax purposes;

(3) For all tangible property other than such property described in (1) or (2) above, use the 150% declining balance method, switching to the straight line method the first tax year it gives a larger deduction, over the property's class life. Use the same convention you used for regular tax purposes.

In applying the above rules:

(1) The "class life" to be used for AMT purposes has a different meaning than the recovery period used for regular tax purposes (although these periods could possibly be the same in some instances). The class lives you need to use for AMT purposes can be found in Rev. Proc. 87-56, 1987-2 C.B. 674, or in **Publication 534,** Depreciation. Use 12 years for any tangible personal property that does not have an assigned class life;

(2) See Rev. Proc. 87-57, 1987-2 C.B. 687, for optional tables (14 through 18) that can be used in computing depreciation for AMT purposes. (These optional tables have been reproduced in Publication 534.);

(3) Do not make an adjustment for property for which you made a section 168(f)(1) election for regular tax purposes to exclude such property from MACRS treatment and depreciate it under another method described in that section (such as the unit-of-production method) OR for property that is specifically excluded from MACRS treatment under sections 168(f)(2) through (4); and

(4) You must take into consideration the transitional rules (described in section 56(a)(1)(C)) and the normalization rules (described in section 56(a)(1)(D)).

Subtract your recomputed AMT expense from the depreciation expense you claimed for regular tax purposes and enter the result on line 2a. If the total recomputed AMT expense exceeds the depreciation expense you claimed for regular tax purposes, enter the difference as a negative amount.

Note: *The line 2a depreciation adjustment differs from the depreciation tax preferences you may have to compute for lines 3g and 3h in that, on line 2a, you may net negative adjustments against positive adjustments, whereas the tax preferences of lines 3g and 3h include only amounts from specific assets that produce positive adjustments.*

Note also: *Depreciation that is capitalized to inventory under the uniform capitalization rules must be refigured using the rules described above.*

Line 2b—Amortization of certified pollution control facilities placed in service after 1986.—The amortization deduction you claimed for regular tax purposes is not allowed for AMT purposes.

For AMT purposes, you must use the ADS described in section 168(g). As such, use the straight line method over the facility's class life (which may be found in Rev. Proc. 87-56 or in Publication 534). **Note:** *Section 168(g) applies to 100% of the asset's amortizable basis. Do not reduce basis by the 20% cutback of section 291 as you did for regular tax purposes.*

Subtract your recomputed AMT expense from the expense you claimed for regular tax purposes and enter the result on line 2b. If your recomputed AMT expense is greater than the expense you claimed for regular tax purposes, enter the difference as a negative amount.

Note: *The line 2b amortization adjustment differs from the tax preference you may have to compute for line 3i in that, on line 2b, you may net negative adjustments against positive adjustments, whereas the tax preference of line 3i includes only amounts from specific assets that produce positive adjustments.*

Line 2c—Amortization of mining exploration and development costs paid or incurred after 1986.—*If, for regular tax purposes, you elected the optional 10-year writeoff under section 59(e) for all assets in this category, skip this line (no adjustment is necessary).*

The deduction you claimed for regular tax purposes under sections 616(a) and 617(a) is not allowed for AMT purposes. Instead, you must capitalize such costs and amortize them ratably over a 10-year period beginning with the tax year in which you made them. **Note:** *The 10-year amortization applies to 100% of the mining development and exploration costs paid or incurred during the tax year. Do not reduce basis by the 30% cutback of section 291 as you did for regular tax purposes.*

Subtract your recomputed AMT expense from the expense you claimed for regular tax purposes and enter the result on line 2c. If your recomputed AMT expense is greater than the expense you claimed for regular tax purposes, enter the difference as a negative amount. See section 56(a)(2)(B) if you had a loss with respect to any mine or other natural deposit (other than an oil, gas, or geothermal well).

Line 2d—Amortization of circulation expenditures paid or incurred after 1986 (personal holding companies only).—*If, for regular tax purposes, you elected the optional 3-year writeoff under section 59(e) for all of these expenditures, skip this line (no adjustment is necessary).*

The deduction you claimed for regular tax purposes (under section 173) for these expenditures incurred after 1986 is not allowed for AMT purposes. For AMT purposes, you must capitalize these expenditures and amortize them ratably over a 3-year period beginning with the tax year in which you made them.

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Subtract your recomputed AMT expense from the expense you claimed for regular tax purposes and enter the result on line 2d. If your recomputed AMT expense is greater than the expense you claimed for regular tax purposes, enter the difference as a negative amount. See section 56(b)(2)(B) if you had a loss with respect to any property generating a circulation expenditure.

Line 2e—Basis adjustments in determining gain or loss from sale or exchange of property.—If, during the tax year, you disposed of property for which you are making (or have previously made) any of the adjustments described in lines 2a through 2d above, you must recompute the property's adjusted basis for AMT purposes. You must then recompute the property's gain or loss.

For AMT purposes, the property's adjusted basis is its cost less all applicable depreciation or amortization deductions allowed during the current tax year and previous tax years for AMT purposes. This recomputed basis is subtracted from the sales price to arrive at gain or loss for AMT purposes.

Enter the difference between the gain or loss reported on your tax return for regular tax purposes and your recomputed gain or loss for AMT purposes. If the gain recomputed for AMT purposes is less than the gain computed for regular tax purposes OR if the loss recomputed for AMT purposes is more than the loss computed for regular tax purposes OR if you recomputed a loss for AMT purposes and computed a gain for regular tax purposes, enter the difference as a negative amount.

Line 2f—Long-term contracts entered into after February 28, 1986.—For AMT purposes, you must use the percentage of completion method rules described in section 460(b) to determine the taxable income from any "long-term contract" (defined in section 460(f)) you entered into after 2/28/86. However, this rule does not apply to any "home construction contract" (as defined in section 460(e)(6)) you entered into after 6/20/88 with respect to which you meet the two-year estimated completion requirement of section 460(e)(1)(B)(i) and the $10,000,000 ceiling on average annual gross receipts requirement of section 460(e)(1)(B)(ii). **Note:** *In the case of a contract described in section 460(e)(1), the percentage of the contract completed is to be determined using the simplified procedures for allocating costs outlined in section 460(b)(4).*

Subtract the income you reported for regular tax purposes from the income you recomputed for AMT purposes and enter the difference on line 2f. If the recomputed AMT income is less than the income you reported for regular tax purposes, enter the difference as a negative amount.

Line 2g—Installment sales of certain property.—With respect to any disposition of inventory (as defined in section 1221(1)) after 3/1/86, the installment method of accounting cannot be used in determining income for AMT purposes (except for certain dispositions of timeshares or residential lots for which you elected to pay interest under section 453(l)(2)(B)).

Application of rules in computing adjustment:

(1) Dealer dispositions: For dealer dispositions occurring after 3/1/86 but before 1/1/88, you will have adjustments with respect to those dispositions if you used the installment method for regular tax purposes but were required for AMT purposes to report the entire gain in the year of disposition. In such cases, enter the income you reported for regular tax purposes for the current year with respect to those dispositions on line 2g as a negative amount.

For dealer dispositions occurring after 1987, generally no adjustments are necessary since the installment method of accounting generally cannot be used for either regular tax purposes or for AMT purposes.

(2) Nondealer dispositions: For nondealer dispositions occurring after 3/1/86 but before the first day of your tax year that began in 1987, you will have adjustments with respect to those dispositions if you used the installment method for regular tax purposes but were required for AMT purposes to report the entire gain in the year of disposition. In such cases, enter the income you reported for regular tax purposes for the current year with respect to those dispositions on line 2g as a negative amount.

For nondealer dispositions occurring on or after the first day of your tax year that began in 1987, generally no adjustments are necessary since you are allowed to use the installment method of accounting for both regular tax purposes and AMT purposes.

Line 2h—Merchant marine capital construction funds.—Amounts deposited in these funds (established under section 607 of the Merchant Marine Act of 1936) after 1986 are not deductible for AMT purposes. Furthermore, earnings on these funds are not excludable from gross income for AMT purposes. Therefore, if you deducted these amounts or excluded them from taxable income for regular tax purposes, you must add them back on line 2h. See section 56(c)(2) for more information.

Line 2i—Section 833(b) deduction (Blue Cross, Blue Shield, and similar type organizations only).—This deduction is not allowed for AMT purposes. Therefore, if you took this deduction for regular tax purposes, you must add it back on line 2i.

Line 2j—Tax shelter farm activities (personal service corporations only).— Complete line 2j only if you have a gain or loss from a tax shelter farm activity (as defined in section 58(a)(2)) that is **not** a passive activity. If the tax shelter farm activity **is** a passive activity, you must include the gain or loss in your computations for line 2k below.

Recompute all gains and losses you reported for regular tax purposes from tax shelter farm activities by taking into account your AMT adjustments and tax preference items. **Important:** *To avoid duplication, any AMT adjustment or tax preference item taken into account on line 2j must not be included in the amounts to be entered on any other line of this form.*

Determine your tax shelter farm activity gain or loss for AMT purposes using the same rules you used for regular tax purposes with the following modification: No recomputed loss is allowed, except to the extent the personal service corporation is insolvent (see section 58(c)(1)). Furthermore, a recomputed loss may not be used in the current tax year to offset gains from other tax shelter farm activities. Instead, any recomputed loss must be suspended and carried forward indefinitely until: **(1)** you have a gain in a subsequent tax year from that same tax shelter farm activity, OR **(2)** the activity is disposed of.

Note: *The amount of any tax shelter farm activity loss that is not deductible (and is therefore carried forward) for AMT purposes is likely to differ from the amount (if any) that is carried forward for regular tax purposes. Therefore, it is essential that you retain adequate records for both AMT purposes and regular tax purposes.*

Enter on line 2j the difference between the gain or loss you recomputed for AMT purposes and the gain or loss you reported for regular tax purposes. If you reported a loss for AMT purposes and a gain for regular tax purposes OR if you recomputed a loss for AMT purposes that exceeds the loss you reported for regular tax purposes OR if you reported a gain for regular tax purposes that exceeds the gain you recomputed for AMT purposes, enter the difference as a negative amount.

Line 2k—Passive activities (closely held corporations and personal service corporations only).—Recompute all passive activity gains and losses you reported for regular tax purposes by taking into account your AMT adjustments and tax preference items. **Important:** *To avoid duplication, any AMT adjustment or tax preference item taken into account on line 2k must not be included in the amounts to be entered on any other line of this form.*

Determine your passive activity gain or loss for AMT purposes using the same rules you used for regular tax purposes with the following modifications: **(1)** Do not use the phase-in of disallowance rules of section 469(m); and **(2)** If the corporation is insolvent, see section 58(c)(1).

Disallowed losses of a personal service corporation are suspended until such time it has income from that (or any other) passive activity or until such time the passive activity is disposed of (i.e., its passive losses cannot offset "net active income" (defined in section 469(e)(2)(B)) or "portfolio income.") Disallowed losses of a closely held corporation that is not a personal service corporation are treated the same except that, in addition, they may be used to offset "net active income."

Note: *The amount of any passive activity loss that is not deductible (and is therefore carried forward) for AMT purposes is likely to differ from the amount (if any) that is carried forward for regular tax purposes. Therefore, it is essential that you retain adequate records for both AMT purposes and regular tax purposes.*

Enter on line 2k the difference between the gain or loss you recomputed for AMT purposes and the gain or loss you reported for regular tax purposes. If you reported a loss for AMT purposes and a gain for regular tax purposes OR if you recomputed a loss for AMT purposes that exceeds the loss you reported for regular tax purposes OR if you reported a gain for regular tax purposes that exceeds the gain you recomputed for AMT purposes, enter the difference as a negative amount.

Tax shelter farm activities that are passive activities.—Recompute all gains and losses you reported for regular tax purposes by taking into account your AMT adjustments and tax preference items. **Important:** *To avoid duplication, any AMT adjustment or tax preference item taken into account here must not be included in the amounts to be entered on any other line of this form.* These recomputed gains and losses should enter into the determination of your passive activity gain or loss for AMT purposes described above. Use the same rules outlined above, with the following additional modification: Recomputed gains from tax shelter farm activities that are passive activities may be used to offset recomputed losses from other passive activities; however, recomputed losses from tax shelter farm activities that are passive activities may not be used to offset recomputed gains from other passive activities. (Recomputed losses from tax shelter farm activities that are passive activities are disallowed and must be suspended and carried forward as explained in the instructions for line 2j.)

Line 2l—Certain loss limitations.—Recompute gains and losses you reported for regular tax purposes from at-risk activities and partnerships by taking into account your AMT adjustments and tax preference items. If you have recomputed losses that must (in accordance with section 59(h)) be limited for AMT purposes by section 465 or by section 704(d) OR if, for regular tax purposes, you reported losses from at-risk activities or partnerships that were limited by those sections, compute the difference between the loss limited for AMT purposes and the loss limited for regular tax purposes with respect to each applicable at-risk activity or partnership. If the loss limited for regular tax purposes exceeds the loss limited for AMT purposes, the difference should be a negative number. Enter the total of all differences on line 2l.

Line 2m—Other adjustments.—Include on this line:

(1) Income with respect to the possessions tax credit—The corporation's AMTI is not to include any income (from the sources described in section 936(a)(1)) that is eligible for the possessions tax credit of section 936. Therefore, if you included this type of income in your taxable income for regular tax purposes, enter the amount on line 2m as a negative amount.

(2) Income with respect to the alcohol fuel credit—The corporation's AMTI is not to include any amount with respect to the alcohol fuel credit that was included in your gross income in accordance with section 87. Therefore, if you included this type of income in your taxable income for regular tax purposes, enter the amount on line 2m as a negative amount.

(3) Income as a beneficiary of an estate or trust—If the corporation is a beneficiary, enter the amount included on Schedule K-1 (Form 1041), line 7.

Line 3a—Depletion.—In the case of mines, wells, and other natural deposits, enter the amount by which your depletion deduction under section 611 exceeds the adjusted basis of the property at the end of your tax year. In computing year-end adjusted basis, use the rules of section 1016; however, do not include a reduction for the current year's depletion deduction.

Figure the excess separately for each property. If the depletion deduction for any property does not exceed the property's year-end adjusted basis, the shortfall is not to be considered on line 3a. (In other words, do not use a shortfall in one property to offset the excess of depletion deduction over adjusted basis in any other property.)

Note: *In the case of iron ore and coal (including lignite), before figuring this tax preference item, the amount allowable as a deduction must be reduced by the cutback required under section 291.*

Line 3b—Tax-exempt interest from private activity bonds issued after August 7, 1986.—Enter the interest you earned on "specified private activity bonds" reduced by any deduction that would have been allowable if the interest were includible in gross income for regular tax purposes. Generally, the term "specified private activity bonds" means any private activity bond (as defined in section 141) issued after 8/7/86. See section 57(a)(5) for exceptions and for more information.

Line 3c—Appreciated property charitable deduction.—Enter the amount by which your contribution deduction allowable under section 170 would be reduced if all capital gain and section 1231 property were taken into account at its adjusted basis (rather than its fair market value).

Line 3e—Intangible drilling costs.—*If, for regular tax purposes, you elected the optional 10-year writeoff under section 59(e) for all assets in this category, skip this line (no adjustment is necessary).*

Intangible drilling costs **(IDCs)** from oil, gas, and geothermal properties are a tax preference item to the extent that "excess IDCs" exceed 65% of the "net income" from the properties. The tax preference item is computed separately for oil and gas properties that are not geothermal deposits and for oil and gas properties that are geothermal deposits.

"Excess IDCs" are the excess of: **(1)** the amount of IDCs you paid or incurred with respect to oil, gas, or geothermal properties that you elected to expense for regular tax purposes under section 263(c) (not including any section 263(c) deduction for nonproductive wells) reduced by the cutback required under section 291 for integrated oil companies; over **(2)** the amount that would have been allowed had you amortized that amount over a 120-month period starting with the month the well was placed in production. **Note:** *If you prefer not to use the 120-month period, you can elect to use any method that is permissible in determining cost depletion.*

"Net income" is the gross income you received or accrued from all oil, gas, and geothermal wells less the deductions allocable to these properties (reduced by the excess IDCs).

Line 3f—Reserves for losses on bad debts of financial institutions.—Enter the excess of: **(1)** the deduction allowable for a reasonable addition to a reserve for bad debts of a financial institution to which section 585 or 593 applies (reduced by the cutback required under section 291) over **(2)** the amount that would have been allowable had the financial institution maintained its bad debt reserve for all tax years on the basis of actual experience.

Line 3g—Accelerated depreciation of real property placed in service before 1987.—Enter the excess of the depreciation claimed for the property for regular tax purposes over the depreciation allowable for AMT purposes as refigured using the straight line method. Figure this amount separately for each property and include only positive adjustments on line 3g. For 15, 18, or 19-year real property, use the straight line method over 15, 18, or 19 years, respectively. For low-income housing property, use the straight line method over 15 years.

Line 3h—Accelerated depreciation of leased personal property placed in service before 1987 (personal holding companies only).—For leased personal property, other than recovery property, enter the excess of the depreciation claimed for the property for regular tax purposes over the depreciation allowable for AMT purposes as refigured using the straight line method. Figure this amount separately for each property and include only positive adjustments on line 3h.

For leased recovery property, other than 15, 18, or 19-year real property, or low-income housing, enter the amount by which your depreciation deduction determined for regular tax purposes is more than the deduction allowable for AMT purposes using the straight line method over the following recovery period:

3-year property	5 years
5-year property	8 years
10-year property	15 years
15-year public utility property	22 years

Line 3i—Amortization of certified pollution control facilities placed in service before 1987.—If, for regular tax purposes, you made an election under section 169 to amortize the basis of a certified pollution control facility over a 60-month period, your tax preference with respect to each such facility is computed as follows:

(1) Reduce the current year amortization deduction by the 20% cutback (15% if the facility was placed in service in 1984) required under section 291;

(2) Reduce the result in (1) above by the deduction you would have been allowed under section 167; and

(3) Multiply the result in (2) above by 59 $^{1}/_{2}$% (71.6% if the facility was placed in service in 1984). Include only positive adjustments on line 3i.

Line 5a—Adjusted net book income.—*If you are preparing Form 4626 for a regulated investment company or a real estate investment trust, skip lines 5a through 5c (they do not apply).*

If you are preparing Form 4626 for an affiliated group that has filed a consolidated tax return for the current tax year under the rules of section 1501, be sure to determine adjusted net book income (ANBI) on a consolidated basis using the specialized rules for related corporations listed below.

Determining your ANBI is a three-step process. The **first step** is to determine your applicable financial statement **(AFS)**. AFS is defined in section 56(f)(3). See Temporary Regulations section 1.56-1T(c) for details and examples.

The **second step** in determining your ANBI is to determine "net book income."

"Net book income" is the income or loss reported on the income statement of your AFS. Such income statement must reconcile with the balance sheet, if any, that is included in the AFS and must be used in computing changes in owner's equity reflected in the AFS.

Net book income must take into account all items of income, expense, gain, and loss for the tax year, including extraordinary items, income or loss from discontinued operations, and cumulative adjustments resulting from accounting method changes.

Net book income includes income or loss reported on the income statement of your AFS regardless of whether such income or loss is taken into account for other Federal income tax purposes. However, there is an exception for any income resulting from the transfer of stock by the corporation issuing such stock to a creditor in satisfaction of its indebtedness if, in such case, the corporation is a "debtor in a chapter 11 case" (as defined in section 108(d)(2)) or to the extent the corporation is "insolvent" (as defined in section 108(d)(3)).

Note: *If you do not have any of the types of financial statements or reports described in section 56(f)(3)(A), your net book income is your earnings and profits (**E&P**) for the current tax year.*

See Temporary Regulations sections 1.56-1T(b)(2)(iv) through (b)(7) for additional information and examples regarding the determination of net book income for: **(a)** consolidated groups, **(b)** foreign corporations, **(c)** corporations that have tax years and financial accounting years that differ, and **(d)** corporations that use current E&P.

The **third step** in determining your ANBI is to make adjustments to net book income. These adjustments include:

(1) Federal income taxes—You must adjust net book income to disregard any Federal income taxes which are directly or indirectly taken into account on your AFS.

Example: The AFS determined by Corporation A shows net book income of $120. In arriving at net book income, the AFS shows $20 of current and/or deferred state income tax expense and $60 of current and/or deferred Federal income tax expense. Assuming there are no other adjustments to net book income, Corporation A's ANBI is $180 ($120 of net book income + $60 of Federal income tax expense). **Note:** *No adjustment is made for state income tax expense.*

See Temporary Regulations section 1.56-1T(d)(3) for additional information and examples regarding more complex issues (such as extraordinary items shown on your AFS which are net of taxes and the effects of certain valuation adjustments) that may arise with respect to Federal income taxes on your AFS.

(2) Statements covering different periods—You must make appropriate adjustments to arrive at ANBI in any case in which an AFS covers a period other than the tax year. Generally, you need to include a pro rata portion of items from each AFS for each AFS accounting period that includes any portion of the tax year.

Example: Corporation B uses a September 30 year-end for accounting purposes and a calendar year for tax purposes. For its tax year ending December 31, 1989, after making all appropriate adjustments to the net book incomes of its AFSs, Corporation B will include 273/365 of the ANBI from its September 30, 1989, AFS and 92/365 of the ANBI from its September 30, 1990, AFS.

Note: *In this example, a problem arises in that the AFS for Corporation B's accounting period that ends September 30, 1990, will not be available before September 15, 1990, the date Corporation B is required to file its tax return (including extensions) for the year ended December 31, 1989. In this case, Corporation B is required to make a reasonable estimate of the ANBI for the period in question. When the AFS covering the period becomes available, Corporation B must file an amended return within 90 days of the date of availability if the actual ANBI is higher than the estimate and results in additional tax liability.*

See Temporary Regulations section 1.56-1T(b) for additional information and examples regarding more complex issues that may arise with regard to statements covering different periods.

(3) Foreign taxes—Generally, you must adjust your net book income to "disregard" any income taxes imposed by any foreign country or U.S. possession that are directly or indirectly taken into account on your AFS. To apply this rule, the following adjustments must be made to the net book income of your AFS:

(a) Add back any "foreign taxes" deducted on your AFS to the extent they were not deductible for regular tax purposes. **Example:** Since for regular tax purposes, you are not permitted to deduct withholding or income taxes imposed by a U.S. possession on dividends received from a section 936 corporation, you are not permitted to deduct them on your AFS for AMT purposes. Therefore, any such taxes taken as a deduction on your AFS must be added back in arriving at net book income.

(b) Do not add back any income taxes imposed by any foreign country or U.S. possession that you deducted on your AFS if, for regular tax purposes, you elected to deduct such taxes in lieu of taking the foreign tax credit OR you were denied the benefit of the foreign tax credit under section 901(j). **Example 1:** If, for regular tax purposes, you elected to deduct foreign taxes in lieu of taking the foreign tax credit, do not add back the related foreign taxes expense that was taken as a deduction on your AFS in arriving at net book income. **Example 2:** If, for regular tax purposes, you deducted foreign taxes due to the fact you were denied the foreign tax credit for those taxes under section 901(j), do not add back the related foreign taxes expense that was taken as a deduction on your AFS in arriving at net book income.

(c) Any income that is related to taxes that are not deductible for regular tax purposes must be reflected gross of such related taxes on your AFS.

(4) Related corporations—If you filed a consolidated tax return for regular tax purposes, the entities included in that consolidated group may differ from those included in your AFS. For example, your AFS may include foreign companies and section 936 corporations; however, these entities cannot be included within your consolidated group for regular tax purposes. If the entities included in your AFS differ from those included in your consolidated tax return, you must make adjustments to the net book income of your AFS so that it includes: **(a)** only the activity of related corporations included in your consolidated tax return, and **(b)** the actual or deemed distributions you received from related corporations not included as members on your consolidated tax return.

See Temporary Regulations section 1.56-1T(d)(6) for more information regarding any additional reversing, consolidation/elimination, or other type entries that may be necessary in adjusting the net book income of your AFS.

(5) Omissions or duplications—In computing ANBI, you must not omit or duplicate any item. For example, included within the Temporary Regulations are rules that prevent omissions and duplications resulting from: **(a)** a taxpayer that depreciates an asset below its cost, **(b)** a consolidated group that uses current E&P, and **(c)** a taxpayer that restates its prior year's AFS. For more details and examples, see Temporary Regulations section 1.56-1T(d)(4)(ii)–(iv).

(6) Adjustments resulting from disclosure—See Temporary Regulations section 1.56-1T(d)(5) for specialized rules regarding: **(a)** adjustments for footnote disclosure and other supplementary information, **(b)** equity adjustments, **(c)** amounts disclosed in an accountant's opinion, and **(d)** accounting method changes that result in cumulative adjustments to the current year's AFS. The Temporary Regulations contain examples that illustrate these rules.

(7) Foreign taxpayers with a U.S. trade or business—See Temporary Regulations section 1.56-1T(d)(7) for these specialized rules.

(8) Special rules that apply with regard to cooperatives, life insurance companies, Alaska native corporations, and dividends from section 936 corporations—See sections 56(f)(2)(E) through (H) for these specialized rules. For more detailed explanations, see Temporary Regulations section 1.56-1T(e).

Line 5b.—Subtract line 4 from line 5a (even if one or both of these figures is a negative number). Enter zero if the result is zero or less. If you are filing Form 4626 for a member of a controlled group, this calculation must be performed on a consolidated basis.

Example 1: Corporation C determines its line 5a ANBI to be $25,000. If its line 4 were $10,000, it would enter the $15,000 difference on line 5b. If its line 4 were instead $30,000, it would enter zero on line 5b since the difference is less than zero. Finally, if its line 4 were negative $100,000, it would enter the difference of $125,000 on line 5b.

Example 2: Corporation D determines its line 5a ANBI to be negative $25,000. If its line 4 were negative $30,000, it would enter the difference of $5,000 on line 5b.

See Temporary Regulations section 1.56-1T(a)(4) for additional information and examples.

Line 7—Alternative tax net operating loss deduction.— Your alternative tax net operating loss deduction **(ATNOLD)** is the NOL you determined for regular tax purposes under section 172, except that:

(1) In the case of a loss year beginning after 1986, the NOL you determined for regular tax purposes from such year must be: **(a)** reduced by the positive AMT adjustments and increased by the negative AMT adjustments provided in sections 56 and 58, and **(b)** reduced by the tax preference items you determined under section 57 (but only to the extent they increased the NOL you determined for regular tax purposes).

(2) In applying the rules outlined in section 172(b)(2) (regarding the determination of the amount of carrybacks and carryovers), you must use the modification to those rules described in section 56(d)(1)(B)(ii).

(3) If, for any tax year beginning before 1987, you had minimum tax that was deferred under section 56(b) (as in effect before the enactment of the Tax Reform Act of 1986) and that deferred tax has not been paid, the amount of NOL carryovers that you may carryover to this year for AMT purposes must be reduced by your tax preference items that gave rise to the deferred add-on minimum tax. (Section 701(f)(2)(B) of the Tax Reform Act of 1986.)

(4) Your ATNOLD is limited to 90% of your AMTI computed without regard to your ATNOLD. Therefore, enter on line 7 the smaller of the ATNOLD or 90% of the amount on line 6.

Note: *The amount of any NOL that is not deductible for AMT purposes may be carried back or carried over in accordance with the rules outlined in section 172(b). The amount carried back or carried over for AMT purposes is likely to differ from the amount (if any) that is carried back or carried over for regular tax purposes; therefore, it is essential that you retain adequate records for both AMT purposes and regular tax purposes.*

Lines 9a and b.—If you are preparing Form 4626 for a member of a controlled group, see section 1561 for the limitation on the $40,000 AMT exemption amount.

Line 12—Alternative minimum tax foreign tax credit.—Refigure the foreign tax credit you claimed for regular tax purposes as follows:

(1) For each separate limitation, recompute both the numerator (foreign source taxable income) and the denominator (worldwide taxable income) of the limitation fraction by taking into account your AMT adjustments and tax preference items. **Note:** *Any increase in AMTI by reason of the excess book income adjustment "shall have the same proportionate source (and character) as AMTI determined without regard to such increase." (Section 59(a)(1)(C));*

(2) Substitute your line 11 AMTI for the "total U.S. income tax against which the credit is allowed;"

(3) For each separate limitation, multiply the fraction in (1) above by your AMTI in (2) above to determine your recomputed limitation;

(4) For each separate limitation, take the lesser of the total foreign taxes paid with respect to that separate limitation and the recomputed limitation from (3) above; and

(5) Add the credits you recomputed for each separate limitation and enter the result on line 12.

Note: *For purposes of determining whether any income is high-taxed (and therefore belongs in the "high withholding tax interest" separate limitation defined in section 904(d)(2)(B)), the AMT rate is to be used instead of the regular rate.*

Your AMT foreign tax credit cannot be more than the amount on line 11 less 10% of the amount that would be on that line if Form 4626 were recomputed using zero on line 7.

Note: *With respect to any separate limitation, any AMT foreign tax credit you cannot claim (because of the limitation fraction or the 90% limit discussed above) may be carried back or carried over in accordance with the rules outlined in section 904(c). However, foreign taxes paid or accrued in a tax year beginning after 1986 that were carried back (for regular tax purposes) to offset tax in a tax year beginning before 1987 may not be used in computing the AMT foreign tax credit for the current tax year.*

Note also: *The amount of any foreign tax credit that you cannot claim (and is therefore carried back or carried over) for AMT purposes is likely to differ from the amount (if any) that is carried back or carried over for regular tax purposes. Therefore, it is essential that you retain adequate records for both AMT purposes and regular tax purposes.*

Line 14—General business credit allowed against AMT.—Enter the amount from line 21, Schedule A, Form 3800.

Line 15.—Enter your regular tax liability for the tax year (as defined in section 26(b)) less your foreign tax credit and your possessions tax credit. Be sure to **include** any tax on accumulation distribution of trusts you computed on Form 4970. **Do not include** any recapture of investment credit you computed on Form 4255 or any recapture of low-income housing credit you computed on Form 8611. If you file Form 1120, this is line 3, Schedule J, minus the sum of lines 4a and 4b, Schedule J.

Line 17—Environmental tax.—*If you are preparing Form 4626 for a regulated investment company or a real estate investment trust, skip line 17 (it does not apply).*

Compute your environmental tax as follows:

(1) Complete your tax return (without the environmental tax deduction) through taxable income before the NOL deduction. (If you filed Form 1120, this would be line 28 minus line 29b.)

(2) Using the result in (1), complete Form 4626 through line 6, skip lines 7 through 16, and figure your environmental tax on line 17.

(3) Using the result in (2), complete your tax return through taxable income before the NOL deduction. Then figure your AMT on Form 4626 by completing lines 1 through 16.

If you are preparing Form 4626 for a member of a controlled group, see section 1561 for the limitation on the environmental tax exemption.

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